

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 USIA-15 PRS-01 DRC-01 /158 W

----- 038223

R 090700Z AUG 74

FM AMCONSUL MELBOURNE

TO SECSTATE WASHDC 2297

INFO AMEMBASSY CANBERRA

AMCONSUL SYDNEY

AMCONSUL BRISBANE

AMCONSUL PERTH

UNCLAS MELBOURNE 0953

E.O. 11652: N/A

TAGS: EFIN, AS

SUBJECT: MELBOURNE REACTIONS TO CHANGE IN VARIABLE
DEPOSIT REQUIREMENT (VDR).

1. REACTIONS IN MELBOURNE FINANCIAL CIRCLES TO AUGUST 8
AUSTRALIAN FEDERAL GOVERNMENT DECISION TO REDUCE VDR ON
LONG TERM OVERSEAS BORROWINGS (TWO YEARS OR MORE) FROM
25 TO 5 PERCENT VARY MARKEDLY.

2. AT NEWS OF THE CHANGED VDR, REACTION ON MELBOURNE
STOCK EXCHANGE WAS DECIDEDLY OPTIMISTIC, WITH ITS FIRST
BROAD-BASED RISE IN SHARE PRICES IN SEVERAL MONTHS, AS
WELL AS VERY HIGH SHARE TURNOVER LEVEL. ONE MELBOURNE-
BASED US BANKER PREDICTED AN INFLUX OF APPROXIMATELY
\$750 MILLION AUSTRALIAN IN OVERSEAS FUNDS OVER THE NEXT
TWELVE MONTHS, CITING INVESTMENT PROJECTS OF \$300 MILLION
AND \$125 MILLION AUSTRALIAN WITH WHICH HE WAS PERSONALLY
FAMILIAR AS LIKELY CANDIDATES FOR EARLY RECEIPT OF SUCH
FUNDS. NOTING A 1 TO 2 PERCENT EFFECTIVE NET DIFFERENCE
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NOW IN INTEREST RATES BETWEEN OVERSEAS MONEY BROUGHT

INTO AUSTRALIA AND LOCALLY AVAILABLE FUNDS, AS WELL AS THE RELATIVE PAUCITY OF INVESTMENT MONEY (\$800 MILLION) AVAILABLE FROM AUSTRALIAN SOURCES, HE FORECAST A SIGNIFICANT FLOW OF OVERSEAS FUNDS INTO THE COUNTRY, THUS EFFECTIVELY REMOVING A MAJOR STIMULUS FOR AN AUSTRALIAN DEVALUATION.

3. ON THE OTHER HAND, A SENIOR AUSTRALIAN BANK EXECUTIVE SUGGESTED THAT OVERSEAS INVESTOR CONFIDENCE IN AUSTRALIA WAS "NOT WHAT IT WAS" WHEN THE VDR WAS INITIALLY IMPOSED, OVER 21 MONTHS AGO, AND, AS A RESULT, OVERSEAS FUNDS WOULD NOT BEGIN IMMEDIATELY TO FLOW BACK INTO THE COUNTRY. HE STRESSED THAT THE SHAPE AND LIKELY IMPACT OF THE UPCOMING FEDERAL GOVERNMENT BUDGET, DUE IN SEPTEMBER, WOULD HAVE A SIGNIFICANT INFLUENCE ON THE ATTITUDES OF POTENTIAL OVERSEAS INVESTORS, AND THOUGHT THAT THE GOVERNMENT MIGHT BE FORCED TO ATTEMPT TO ATTRACT OVERSEAS FUNDS THROUGH THE AUSTRALIAN INDUSTRIAL DEVELOPMENT CORPORATION (AIDC), IF ADEQUATE AMOUNTS DID NOT BECOME AVAILABLE THROUGH PRIVATE INSTITUTIONS.

4. ANOTHER AMERICAN BANKING EXECUTIVE STATED CATEGORICALLY THAT THE VDR CHANGE WOULD HAVE NO EFFECT UNTIL AFTER "THE DEVALUATION OF THE AUSTRALIAN DOLLAR OCCURS". THIS SOURCE BELIEVED: AN AUSTRALIAN DEVALUATION WAS INEVITABLE; COULD RANGE FROM 5 TO 10 PERCENT; AND WOULD OCCUR IN SEPTEMBER, AT ABOUT THE TIME OF BUDGET SUBMISSION, OR AT THE CHRISTMAS OR EASTER HOLIDAY, OR ONCE IN DECEMBER (5 PERCENT) AND AGAIN AT EASTER (ANOTHER 5 PERCENT). HE CONCLUDED THAT SINCE FORWARD COVER AGAINST SUCH DEVALUATIONS WAS VERY DIFFICULT TO OBTAIN, ESPECIALLY AFTER THE RECENT HERSTATT BANK COLLAPSE IN GERMANY, UNDER THESE CONDITIONS OVERSEAS INVESTORS WERE OBVIOUSLY NOT INCLINED TO MOVE FUNDS INTO AUSTRALIA AT THE PRESENT TIME.

5. CONGEN WILL FOLLOW THIS SITUATION CLOSELY AND REPORT FURTHER MELBOURNE REACTIONS TO THE VDR CHANGE AS THEY OCCUR.

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